loto-québec

NINETEENTH

ANNUAL REPORT

1988-1989

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LOTO-QUÉBEC SET FOR ITSELF FOUR FUNDAMENTAL OBJECTIVES BASED ON THE FOLLOWING GUIDELINES :

PERFORMANCE
To maximize the Société's net income and ensure the highest standards of customer services.

INTEGRITY AND CREDIBILITY
To ensure the public credibility and integrity regarding the games and the management of the Société's affairs.

EXPERTISE AND COMPETENCE
To attain, through its expertise, a position of leadership in its field.

EXPANSION
To develop all the games considered appropriate.

Société
des loteries
et courses
du Québec

NINETEENTH

ANNUAL REPORT

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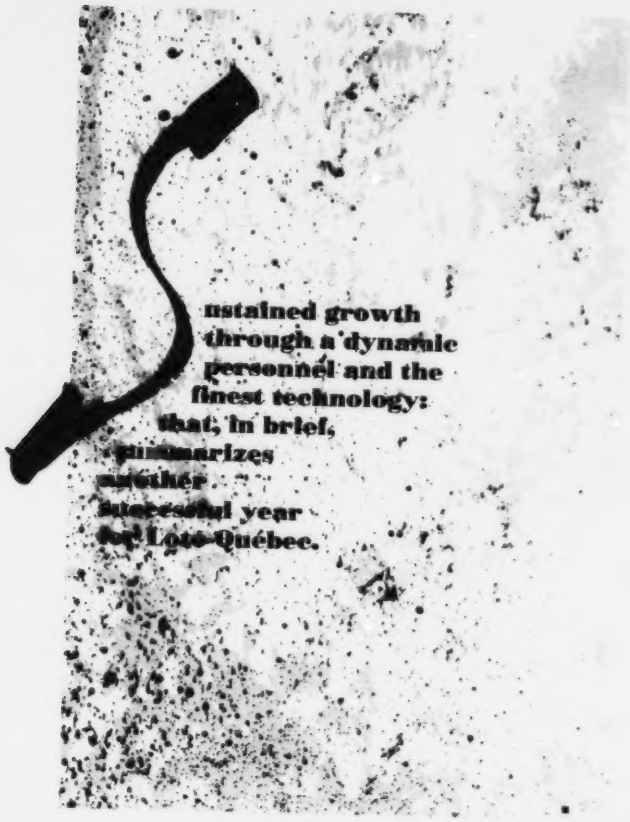
loto-québec

90-00731/

HIGHLIGHTS



ON THE FINANCIAL BALANCE SHEET

(in thousands of dollars)	1988-1989	1987-1988	Increase %
Sales	1,158,170	1,036,491	11.7
Prizes	542,695	477,784	13.6
Net income before special contributions and commissions	439,971	397,571	10.7
Discounts to retailers	60,214	54,777	9.9
Stipends, salaries and social benefits paid to personnel	30,789	26,495	16.2

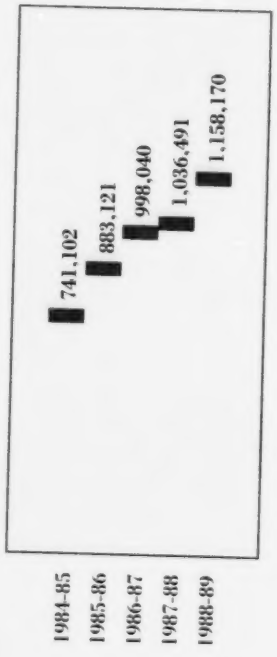
ON THE SOCIAL BALANCE SHEET

- Approximately $30,000.00 committed to the Loto-Québec Collection of original engravings, to grants for prize-winners and to the publication of their works in art-book form.
- More than $100,000.00 for the acquisition of works of art by Québec artists and some $20,000.00 for exhibiting works of art from the Loto-Québec Collections in Museums and other Cultural centres throughout Québec.
- More than $600,000.00 in sponsorships awarded to organizations conducting foot races, cycling tours and folk festivals which promote Québec products or resources.
- More than $100,000.00 awarded in study grants for university-level research related to the field of games.

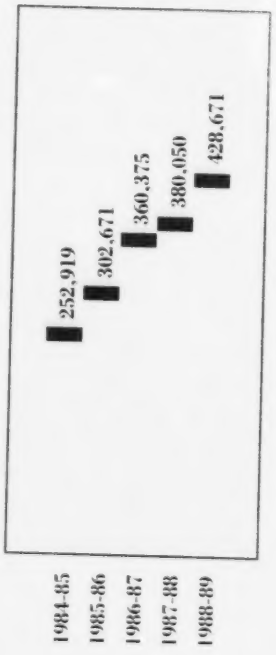
ON THE BALANCE SHEET OF QUALITY OF LIFE AND PROFESSIONAL DEVELOPMENT

- The permanent implementation of compressed or variable work-schedules, in collaboration with Le Syndicat des travailleurs et travailleuses de Loto-Québec.
- The integration into Loto-Québec's policies of certain directives issued by the Department for the Environment related to the protection of non-smokers and the establishment of an assistance program for those employees who wish to quit smoking.
- The gradual implementation of a permanent access committee dealing with equality of employment for women and the continuation of awareness sessions for managers regarding the Société's orientation in this area.
- The establishment of an assistance program and an external service of consultation and referral for current and retired employees, and for members of their immediate family, who may be in personal or professional difficulties.
- A continued policy concerning the payment of dues by some Loto-Québec employees to professional organisms or associations.
- The continuation of an assistance program of financial support for the professional development of employees.
- The continuation of a program of retirement counselling.
- An official application submitted to the Office des services de garde à l'enfance for setting up non-profit day-care facilities.
- The continuation of a financial support program for employee participation in sporting activities, socio-cultural endeavours or physical fitness programs.
- The continuation of a program aimed at enhancing the physical surroundings by means of works of art from the Loto-Québec Collection.

SALES GROWTH
(in thousands of dollars)



NET INCOME GROWTH
(in thousands of dollars)

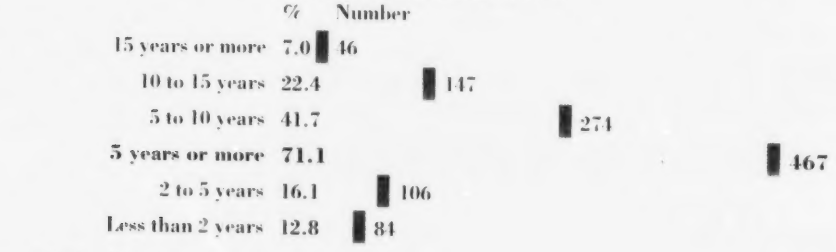


ON THE BALANCE SHEET OF HUMAN RESOURCES

Loto-Québec owes all its success to a competent and dynamic personnel. As at March 31, the Société's active personnel numbered 657 employees. The degree of seniority attained by the personnel of Loto-Québec, a Corporation which on January 1, 1990 will celebrate its twentieth year of existence, attests to the attachment formed by the employees for the Société.

PERSONNEL

PERSONNEL SENIORITY



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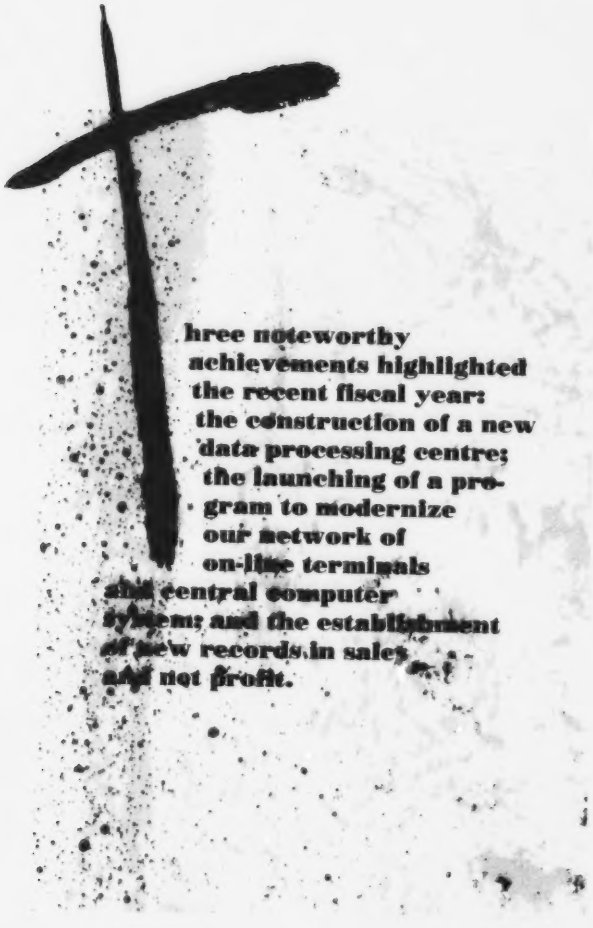
DISTRIBUTION OF PERSONNEL BY VICE-PRESIDENCY OR DIVISION (%)

	Non-Unionized Personnel	Unionized Professionals	Unionized Support Staff	Male	Female
General Management and Vice-presidency, Corporate Affairs	56.8	5.4	37.8	35.1	64.9
Vice-Presidency, Lotteries					
Finance Division	21.4	10.7	67.9	42.0	58.0
Marketing Division	23.5	29.4	47.1	47.1	52.9
Sales Division	27.6	6.5	65.9	59.9	40.1
Games-Network Division	23.0	17.0	60.0	63.8	36.2
Vice-Presidency, Systems	14.5	39.1	46.4	56.5	43.5
New Markets Division	26.7	53.3	20.0	66.7	33.3
Vice-Presidency, Human Resources	58.2	2.3	39.5	34.8	65.2
Total (in numbers)	176	114	367	345	312
%	26.8	17.4	55.8	52.5	47.5

PRESIDENT'S REPORT



Three noteworthy achievements highlighted the recent fiscal year: the construction of a new data processing centre; the launching of a program to modernize our network of on-line terminals and central computer system; and the establishment of new records in sales and net profit.

We were able to surpass our financial objectives thanks to the sustained and active commitment of each employee of Loto-Québec, thereby demonstrating that our personnel is the very foundation of our success. It is the professionalism and strong sense of responsibility of our employees that have enabled us to present this very positive annual report and to be able to look forward to an even more promising future.

NEW DATA PROCESSING CENTRE Mr. Denis Vandry, Vice-President, General Management, assumed the major responsibility of the construction of the new data processing centre, from which Loto-Québec's on-line lottery network will be run. When this report is published, Mr. Vandry will have already retired from Loto-Québec after more than 15 years of service as Commissioner, as Vice-President and member of the Board of Directors, as Vice-President of SODIC Québec, then a wholly-owned subsidiary of Loto-Québec, and finally, as Vice-President, General Management.

The new Centre, soon to be inaugurated, will constitute a perpetual testimonial to the highly-skilled competence of one of the true «builders» of our company.

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Guided by a master hand, the project was completed on schedule and well within the initial budget, an accomplishment quite noteworthy in itself.

Entrusted to the firm of Roy L.G.L. Ltée, which supervised the project from blueprints prepared by

the firm of Fichten & Soiferman Architects, the building should meet all our foreseeable needs for the coming years. Stamped by a sober and tasteful design and equipped with the most sophisticated security devices and equipment, it will allow our highly specialized personnel to enjoy working conditions of excellent quality.

THE ENJEU PROJECT Launched in 1987, the modernization and replacement of our computer equipment was pursued throughout the year. It called upon the efforts and expertise of nearly all of our employees, including management, professionals and technicians.

A special task force was formed to coordinate, assess and revise the programs, and to serve as liaison with the suppliers, Yvon Boulanger Ltée, General Instruments of Canada, and Comterm. With a budget of 50 million dollars - of which 46 million have already been committed - and wholly financed by Loto-Québec, this project will enable us to reduce our computer costs, relative to sales volume, from 4.1% in 1983 to 2.3% in 1989.

The Enjeu project is essential to permit the orderly and secure development and diversification of our computerized lottery games, games which, as demonstrated in this report, are still increasing in popularity with our consumers who are justifiably demanding and, at the same time, are receptive to change.

Enjeu : a project of paramount importance and extreme technical complexity

MEETINGS The Board of Directors held nine meetings, while the Audit Committee met on four occasions.

The majority of the members of the Board were named after the launch of the Data Centre and Enjeu projects. Their active commitment, expertise and enlightened advice have contributed directly and unequivocally to the results for this fiscal period.

RESULTS Our sales reached a new summit of 1,158 million dollars, 47 million dollars more than our initial objective and an increase of 11.7% over the preceding fiscal year. Our net income rose to 428.7 million dollars, as compared with 380 million, an increase of 12.8%. Since 1984, sales have risen by 75% and net income by 92%, while administrative costs have risen by only 37%. Over the last decade,our sales and net income have almost quadrupled.The reports of our Vice-Presidents and Managers outline the main achievements of each Division, achievements which attest, once again, to the dynamism and financial success of Loto-Québec.

Loto-Québec continues to play a very active role within the International Lottery Corporation.

NATIONAL AND INTERNATIONAL AFFAIRS Loto-Québec continues to be a leader on the international scene. My term as Secretary-General of the International Association of State Lotteries was renewed for two years at the Association's last Convention held in Melbourne, Australia. Loto-Québec will continue to serve as its Head Office.

Again this year, Loto-Québec has welcomed numerous delegations of foreign Lotteries, notably from Australia, Hong Kong, New Zealand and France. Our company's cooperation with the French National Lottery was at least partially responsible for the fact that the instant lottery tickets currently being sold in France are manufactured in Québec.

We are currently developing several products for the pan-Canadian market in conjunction with our colleagues in the other Canadian lottery organizations.

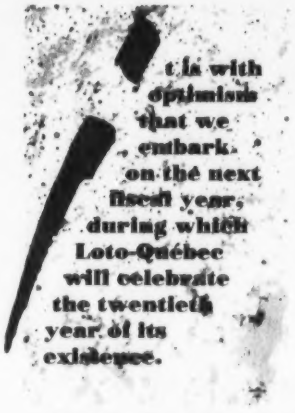
OUTLOOK In a manner of speaking, Loto-Québec has reached the logical ceiling of its potential in the lottery market. It will, therefore, become increasingly difficult for the Société to maintain a rate of growth superior to that of inflation, unless it offers its clientèle newly-conceived games, not only in their presentation but also in their means of distribution.

We have launched a line of original, distinctive and prestigious $20 lotteries, which were increasingly dynamic and captivating and which were well-received by the public. These lotteries alone represent an increase in sales of some 20 million dollars compared to the sales of the former Super Loto.

We have also increased the capacity of our computer systems by 50% in the last two years. The new technology we are implanting will allow us to double or triple the current capacity. Thanks to a more advanced computer and terminal system, we will be able to reach a broadened clientèle with new games: kino, sports pools or other types of games.

Loto-Québec has been very active in the field of telematics. We are collaborating very closely with the Québec companies who are developing new systems, and we are already offering lottery information services. This avant-garde technology will enable us to eventually develop new modes of distribution.

Games of chance presently constitute about 1.5% of the internal Gross National Product of Québec. We believe that, throuth an active ut''zation of new technologies and a well-designed program for launching new products, we shall be able, over the next five years, to reach a figure of 2%, or a real increase of some 33%; annual growth should range between 6 and 9%.


It is with optimism that we embark on the next fiscal year, during which Loto-Québec will celebrate the twentieth year of its existence.

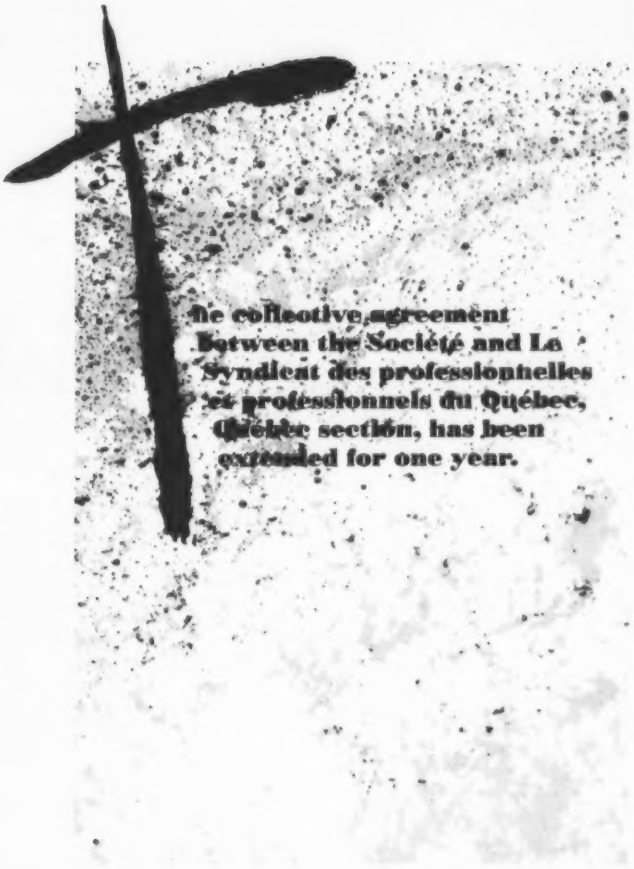
Loto-Québec's mission is to grow in an orderly fashion, alert to the desires of its clientèle. We shall continue to serve our population while reflecting its values and culture.

David Clark

THE CHART OF A SUCCESS STORY

(in millions of dollars)	83-84	84-85	%	85-86	%	86-87	%	87-88	%	88-89	%	% Increase 5 years
Sales	662.2	741.1	12	883.1	19	998.0	13	1,036.5	3.8	1,158.1	11.7	75
Prizes	304.7	342.1	12	408.7	20	460.1	12	477.8	4	542.7	14.0	78
Operating Costs	71.2	79.9	12	85.6	7	87.2	2	87.4	0.2	97.4	11.0	37
Net Income	223.1	252.9	13	302.7	20	360.4	19	380.0	5	428.7	13.0	92

HIGHLIGHTS


The collective agreement between the Société and Le Syndicat des professionnelles et professionnels du Québec, Québec section, has been extended for one year.

VICE-PRESIDENCY, HUMAN RESOURCES

In an effort to renew the Collective Agreement between the Société and Le Syndicat des travailleurs et travailleuses de Loto-Québec, many preliminary sessions for dialogue and consultation were held. Open communications and sustained business relations, coupled with a positive approach to the problems made it possible to settle several grievances and other important matters. Thanks to an awareness and consultation program designed for the managers, their involvement in this area was accentuated.

This fiscal period was highlighted by the establishment of several programs designed for the personnel as a whole and centered on the issue of quality of life.

This Vice-Presidency has also undertaken an exhaustive review of the procedures for evaluating the performance of professionals, so as to achieve a more equitable assessment of the evaluation results and to facilitate career development.

In the area of equality of employment, this Vice-Presidency continued its awareness program relating to the orientations of the Société in this matter, with a view to establishing an equilibrium in jobs where women are under-represented.

Following a series of control tests, a new evolutive system for managing human resources was installed and adapted to conform to the collective agreements and to the production of management indicators.

The Vice-Presidency for Human Resources also revised the system for administering the salary structures of Cadres and Supervisory Personnel in order to standardize it, while preserving an internal and external equity of remuneration. It initiated consultations and analyses and elaborated a plan for the rationalization and reduction at the management level, based on accrued efficiency generated in the pursuit of corporate objectives. Spread over a period of three years, the program will be implemented without lay-offs and without a decrease in salaries.

The matter of preventive security was the object of an awareness program in which the protection of company assets was emphasized, so as to reflect the high reputation enjoyed by the Société in this area.

VICE-PRESIDENCY, LOTTERIES

The Vice-Presidency for Lotteries is composed of four Divisions: Marketing, Finance, Games-Network Processing and Sales & Distribution; in addition, it is also responsible for Supply Services and Community Services.

Each Division will present a separate account of its activities; but the following are particularly noteworthy:

As a result of teamwork by all members of the Société, the objectives of the Vice-Presidency for Lotteries were greatly surpassed.

• Marketing: the development and introduction of several instant games and unique, top-of-the-line products which shattered all previous records; and the signing of a service contract with four new advertising agencies.

• Finance: an even more active role in corporate management thanks to an increase in the quality of financial information.

• Games-Network Processing: the preservation of an exceptional rate of performance from our computer centrals, thanks to a very tight monitoring of the network.

• Sales & Distribution: A review of the policies related to the operation of kiosks and the addition of 1,030 points of sale.

MARKETING One of the objectives set forth in the triennial plan of action is to ensure a growth of the Société's net income at a rate superior to that of inflation. This objective still remains the main challenge for the Marketing Division. Among the highlights, the following are of note:

The marketing division has greatly surpassed its objectives and, in view of the performances by the current products, intends to continue doing so, through an active preparation for the coming decade.

• The introduction of top-of-the-line lotteries and the development of a kino game, which will be launched during the coming fiscal year.

• The testing and conceptual development of games related to Bingo or to televised Quiz Games.

• The completion of an eleventh market penetration study bearing, most notably, on the profiles and purchasing habits of consumers.

• The conclusion of a two-year agreement with the firm of external auditors, Coopers Lybrand Laliberté Lanctôt, for the supervision of Loto-Québec draws.

• Two international awards captured by advertising related to the Société: The Silver Lion at the Cannes Film Festival and the Platinum Award 1988 from the North-American Association of State and Provincial Lotteries (NASPL) for a televised ad created by the agency of Léveillé Vickers & Benson Inc.

Fiscal 1988-1989 was the year of instant lotteries and top-of-the-line games.

Following a call for tenders, four new agencies will be responsible, over the next two years, for the publicity of the Société: Two main agencies, Le Groupe Morrow Inc. and P.N.M.D. Communications Inc., and two secondary agencies, Communications Bleu Blanc Rouge 1987 Inc. and Auger Babeux Publicité Inc.

Two waves of five draws for bonus prizes - in October 1988 and in March 1989 - spurred **Lotto 6/49** to a 3.4% increase over the preceding fiscal period. In spite of its popularity, this product has reached its saturation level: the cumulative jackpots, an intrinsic element of the dynamics of this game, are becoming rare and of short duration. Alternative scenarios for relief are being studied. After a difficult start, **Sélect 42** has been cruising along at a promising pace, with an increase of 5.7% over the preceding fiscal period.

La Quotidienne, with an increase of 7.4%, maintained its position in its own particular niche.

In spite of an apparent increase of 14.1%, the **Mini** continued its slow decline, taking into account that, during two months of the preceding fiscal period, this product was withdrawn from the market.

The **Inter Plus** showed a healthy growth of 20.1% over the preceding fiscal period. The addition of an instant game to this traditional lottery proved to be very invigorating.

With an increase of 17.7%, the **Provincial** was revitalized during the fiscal period under review, its jackpot having been increased from $500,000.00 to 1 million dollars.

Top-of-the-line products were offered as a replacement for the **Super Loto**. Their success was nothing short of spectacular: an increase of 67.9% over the preceding fiscal period.

Pleasure, suspense and excitement are the ingredients which enable us to announce an increase of 52 million dollars in the sales of Instant Lotteries, i.e., 30.2%.

But the laurels of success must go the **Instant Lotteries**: novelty, a rotation between $1 and $2 games and a televised *Wheel of Fortune* game.

21.7 million dollars were spent for the purchase of lottery tickets and supplies for our terminals. 15 million dollars were allotted to publicity campaigns for the purchase of advertising space and air-time,through advertising agencies or on television and radio networks.

4.2 million dollars went to producing and broadcasting the draws and publishing the results in newspapers or other media of information.

The following table outlines the performance and evolution of each product. Free tickets have been entered on the books, according to established standards in the field of lotteries. The comparative figures for the last two fiscal periods are somewhat inconclusive, given that the Mini-Loto, Inter-Loto and Provincial were all temporarily removed from the market during the preceding fiscal period.

SALES BY PRODUCT

(in thousands of dollars)	1988-1989	Evolution	1987-1988	Evolution	1986-1987
Passive Lotteries		%		%	
Mini-Loto	47,003	14.1	41,189	(27.5)	56,810
Inter Plus	47,590	20.1	39,623	25.1	31,672
Provincial	46,608	17.7	39,608	(9.1)	43,608
Super *and* Top-of-the-Line	52,813	67.9	31,459	(19.5)	39,069
Subtotal	194,014	27.7	151,879	(11.3)	171,159
Semi-Active					
6/36 *and* Sélect 42	92,593	5.7	87,573	5.8	82,769
La Quotidienne	21,447	7.4	19,975	9.5	18,249
Lotto 6/49	623,141	3.4	602,699	1.6	593,236
Subtotal	737,181	3.8	710,247	2.3	694,254
Instant Lotteries	226,975	30.2	174,365	24.8	132,627
TOTAL	1,158,170	11.7	1,036,491	3.8	998,040

PRIZES ALLOTTED

(in thousands of dollars)	1988-1989	1987-1988
Mini-Loto	20,681	18,123
Inter Plus	23,784	18,741
Provincial	22,996	17,897
Super *and* Top-of-the-Line	26,915	16,737
Select 42 and 6/36	45,299	37,490
La Quotidienne	8,756	8,921
Lotto 6/49	281,945	272,441
Instant Lotteries	112,319	87,434
TOTAL	542,695	477,784

FINANCE The Finance Division is mainly responsible for producing financial information, ensuring the adequate utilization and optimization of assets, managing the financial resources and maintaining a balance between the Société's sources of funds and its needs for those funds. During the year under review, ᓴᓂᐊᓂ ᐃᓕᓴᕐᓂᖅ. ᓄᕐᓗᒋᑦ this Division undertook an exhaustive inventory of the Société's furniture and equipment; 23,800 articles were itemized. The repatriation of the Lotomatique system underwent a thorough examination, particularly in regard to financial controls aimed at ensuring the highest level of security of information supplied by subscribers.

For the management of the accounts department, the average of investments was $1.7 million dollars.

As an additional service to the consumer, the Finance Division processed some 20,000 instant lottery tickets, winners of small prizes usually paid out directly by retailers.

The Payments to Winners Section of this Division processed 273,416 prizes, of which some 191,000 went through the National Bank of Canada.

Some 50,000 cash prizes were also awarded as part of the *Cadeau Surprise* lottery; and a new computerized system was implemented for issuing certificates to the winners. Finally, a special service enabled all participants in the televised broadcasts of *Roue de Fortune* to receive their prizes on the spot.

The Division participated in an analysis of the options available regarding software packages for payroll and management of human resources to be implemented during the coming fiscal period.

Lastly, under the theme of "Finances at your Service", the Division instituted a program of participation aimed at promoting and intensifying its advisory role to the Société's personnel.

Excluding the Tandem computers and terminals, the content distribution of orders in excess of $10,000.00 ᑕᕐᑕᐅᖅ ᖃᖅᑲᓇᐅᑉᑐᑦ ᐃᓕᓴᕐᓂᐊᕐᓂᖅ ᑎᑭᓴᕐᒪᑕᐅᓂᖅ ᐅᖅᑐᓕᔪᓂᖅ was as follows: 84% Québécois content, 8% Canadian content and 8% foreign content.

GAMES-NETWORK PROCESSING The technological changes brought about by the Enjeu project, to which the Division's personnel devoted its unstinting efforts, have had particularly important repercussions. Specifically, significant modifications to the network technology had to be carried out in preparation for the imminent opening of the second Data Processing Centre.

The number of active terminals in the network now stands at 4,376, of which 4,347 are located in retail outlets.

The Division of Games-Network Processing was again successful in maintaining the highest quality of services for computerized sales through terminals. The following table attests to this fact:

Network Operating Time in relation to Sales Time	99.29%
Network Breakdowns	8
Longest Period without a Breakdown in the Computer Central	111 days
Number of Active Terminals	4,376
Number of Service Calls	45,608

SALES & DISTRIBUTION The main accomplishment of the Sales & Distribution Division, achieved through sustained promotional activities and a well-structured program of incentives, was the sales figure of 1,158 million dollars against our initial objective of 1,111 million dollars.

The Division's internal activities included the publication of a monthly bulletin for network personnel and wholesalers, professional training sessions, production of promotional videos, improvement of the layout of working stations and the development of new tools for advertising and sales.

On the external front, there were consultations with business partners, evening receptions for regional retailers, meetings with officials from various associations, retailer conventions and other such activities aimed at preserving our momentum throughout the entire year.

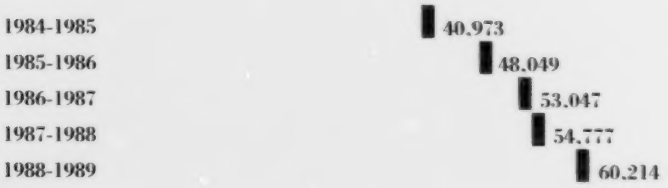
In 1988-1989, $60.2 million dollars were paid out to retailers, as compared with $54.8 million for the preceding fiscal period.

Some 1,070 new applications for operating a terminal were processed, all in accordance with established policies .

A program for the addition of 275 terminals has

been elaborated in conjunction with the Games-Network Processing Division.
A training program for retailers was instituted on the use of the 3,300 new generation terminals to be installed during the coming fiscal period. ᐊᐃᑦᑕᖏᑐ ᐃᓕᓴᐲᒥᓂᖅ
About 1,030 new sale permits were issued, bringing the total number of retailers in the Network to 12,884, 4,347 of which operate a games-terminal.

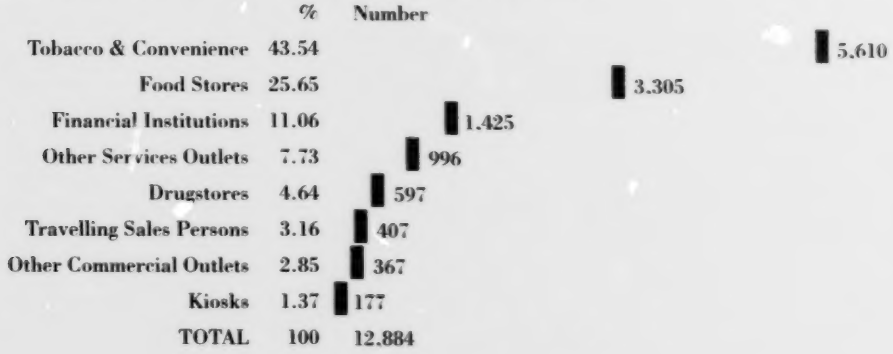
DISCOUNTS TO RET...ERS
(in thousands of dollars)

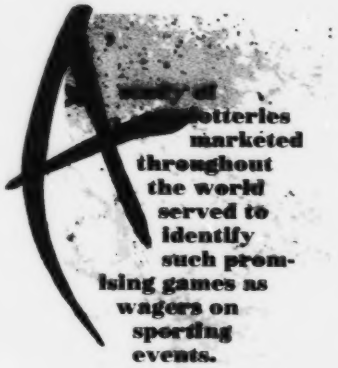


DISTRIBUTION ACCORDING TO REGION

Office	Retailers	%	Terminals	%
Laval	1,511	11.73	535	35.41
Montréal West	1,725	13.39	712	41.28
Québec	2,190	17.00	623	28.45
Trois-Rivières	990	7.68	271	27.37
Sherbrooke	1,207	9.37	329	27.26
Chicoutimi	620	4.81	175	28.23
Rimouski	653	5.06	146	22.36
Montréal East	1,547	12.01	751	48.55
Montréal South	1,511	11.73	580	38.39
Hull	930	7.22	225	24.19
TOTAL	12,884	100.00	4,347	33.74

DISTRIBUTION ACCORDING TO CATEGORY OF BUSINESS





NEW MARKETS DIVISION

Several concepts were developped in the area of new games: one hockey-related game, following a consumer-poll, showed interesting potential. Other games, inspired by bingo or containing elements of T.V. quiz games, have also been tested. The Division also continued its up-date of information pertaining to the different games environments - casino, grey area, bingo, etc.

In collaboration with various instances in the milieu, a report was presented analyzing the problems involving grey area games and machines and proposing certain solutions to improve conditions in this field.

In the area of new methods of distribution, testing was completed on automatic lottery dispensers and recommendations were submitted. Also tested were ticket dispensers and instant lottery vending machines as viable instruments for broadening the scope of services offered to the consumer.

The "Télématique" dossier was highlighted by the introduction of a program of lottery information on Bell Canada's Alex Network, by efforts to produce similar programs for other networks (Infodoc and Videoway) and by testing carried out on video and other amusement games. ᑲᑕᑲ ᑕᐃᓕᖅᑎᓂᓪ ᑕᐃᒪᖓᑕ

The Research Department conducted a wide-ranging poll on the habits, interests and attitudes of Québecers towards games of chance and wagers as a whole, as well as various studies on relevant sectors. Extended for a fourth year was the program of scholarships and university-level research grants for studies related to such topics as the acquisition of betting habits, compulsive gambling, legislative and regulatory frameworks, etc.

The New Markets Department has also kept up its participation in the Shad Valley Project, a project with corporate implications aimed at promoting the diversification of scientific and entrepreneurial careers among young Québecers.

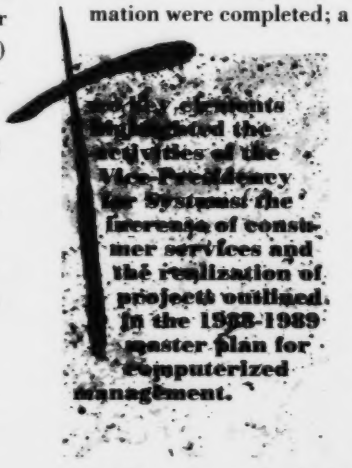
VICE-PRESIDENCY, SYSTEMS

In accordance with its established priorities, the Vice-Presidency for Systems spent a major part of its efforts in the elaboration of a new technological games environment.

The availability of computer services was maintained at the 99.74% level for the games sector and at 99.22% for the management sector. The quality of relevant services was enhanced by the addition of diagnostic instruments for preventive maintenance.

Customer services were improved in several ways: the implementation of a system for payment of prizes to holders of group-tickets; the computerization of the published results for the top-of-the-line lotteries; the repatriation of the operating systems for the Lotomatique; provision of touch-screens for posting the results of the draws; installation of an automatic verification system, for use by the banks, to facilitate payment of prizes.

Within the Vice-Presidency, work continued on the project for the review and replacement of outdated systems for payment and management of human resources. Two stages of the main plan for office automation were completed; a guide intended to facilitate and maximize user development of computerized management software will be published at the beginning of the coming fiscal period. And lastly, work was begun on the preparation of a new archive centre for storing the Société's documentation.



In the area of computer security and integrity, the accent was placed on preventive controls throughout the entire cycle of systems development and the institution of specific measures, such as: a procedural guide for security personnel involved in project development, an evaluation of software for access controls and a review of access controls regarding corporate information, its processing, manipulation and conservation.

VICE-PRESIDENCY, CORPORATE AFFAIRS

The corporate Secretariat continued in its support functions of organizing the meetings of the Board of Directors, and its committees, and preparing applications for governmental approval.

For the Legal Department, the Enjeu project has represented a dossier of the utmost importance. The department also applied its resources, principally in the areas of contractual and legal expertise, to the implementation of a program of lottery information on "Télématique" networks such as Alex, Infodoc and Videoway. It presented reports on the current legal situation regarding new concepts of games, such as wagers on sporting events, grey area games and televised quiz games. Moreover, it actively collaborated with attorneys from the Interprovincial Lottery Corporation to combat the illegal sale of lotteries abroad. The documentation centre maintained its program of customer services, notably in the area of research material on games of chance and money. Two internal bulletins were launched: one dealing with "Télématique", the other with new trends in games of chance and money.

The Planning Department played a most prominent role in the elaboration of the Société's priorities. It has, for instance, supervised the organization of two consultation sessions regarding not only the development of products and technologies, but also that of the working climate, two areas affecting all members of the Société. A good number of the suggestions and proposals examined at that time have since been put into effect. The Department also ensured that all employees were well-informed of the Société's priorities.

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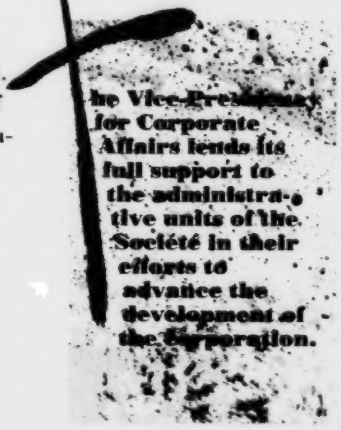
The Department also completed two extensive studies: the first, bearing on management trends, was conducted among eleven leading businesses in Québec; the second, bearing on the development of corporate indicators, was intended to situate the performance of the Société in comparison with that of other North-American lottery corporations.



PUBLIC AFFAIRS Greater international prestige and an even greater involvement by the Société in the artistic and cultural life of Québec, these have been the two summits of activity which absorbed the attentions of the Public Affairs Directorate.

At the international level, the Directorate continued its active managerial role within the Secretariat of the International Association of State Lotteries (A.I.L.E.), whose Head Office is situated at Loto-Québec. Moreover, the Directorate proceeded to a complete revision of the Association's statutes, which were unanimously approved by the General Assembly at the Melbourne Convention. To round out its international agenda, the Directorate actively participated in the A.I.L.E. Magazine, published an updated International Lottery Directory, shared in the preparatory arrangements for the A.I.L.E. Convention and welcomed numerous delegations from foreign countries.

Two of the programs conducted by the Public Affairs Directorate were honoured by the Société des relationnistes du Québec.

At the national level, the Directorate of Public Affairs intensified its programs related to the Loto-Québec Art Collections: in an effort to promote awareness and recognition for today's québécois art, the Directorate, in concert with Museums and other Cultural Centres, presented several exhibitions of these works of art. The Société des relationnistes du Québec awarded two distinguished prizes to the Directorate of Public Affairs: Best External Public Relations Program for the Collection of Original Engravings Competition, and Best Audiovisual Document for *Portrait of a Success Story*, a presentation showcasing the Société's achievements.

The chief function of the Office of the President is to provide the President and Director-general with a privileged assistance in various strategic dossiers and to lend its full support to the administrative units of the Société in their managerial agenda.

OFFICE OF THE PRESIDENT

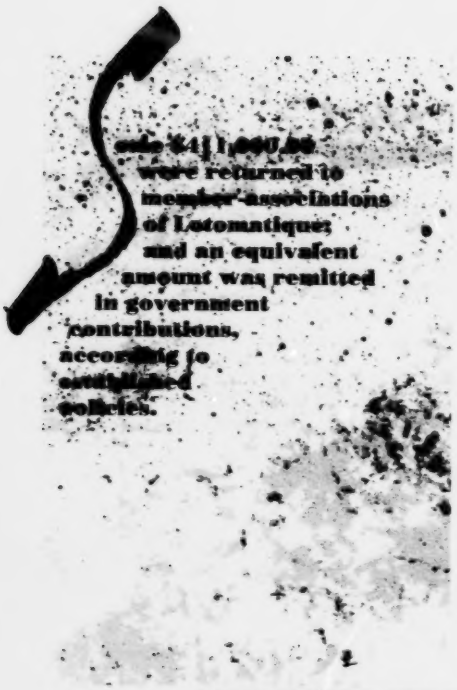
This past year, the emphasis was placed on broader management trends, on a study and implementation of an approach of «loto-quality», or total quality, within the Société as well as on the analysis of various models of organizational structures, classifications and corporate management indicators.

The Service of Organizational Development continued to execute its mandate through their programs for the development for Cadres and the evaluation of managerial potential, concentrating its efforts in the consolidation and development of team-management.

INTERNAL AUDITING

In its support capacity for general management and under the mandate of the Audit Committee, the Directorate for Internal Auditing continued, this past year, its internal audit controls with emphasis placed on the security, integrity and quality of the systems in place and those under development, areas which are of concern to the Société. The activities of this Directorate greatly contributed to the improvement of the Société's management systems.

SOCIAL INVOLVEMENT



LOTOMATIQUE

Loto-Québec entrusts the sale of Lottery subscriptions to non-profit organizations. As at March 31, 1989, the Société numbered 525 accredited organizations, an increase of 82 associations over the preceding fiscal year.

KIOSKS

The management of sales kiosks is also entrusted to Non-profit Organizations who thereby obtain substantial revenues for their charitable works. According to a new policy, the Société even defrays a part of the rental costs for the kiosks. Some $500,000.00 were allotted to this item.

SPONSORSHIP PROGRAMS

The Sponsorship program for 1988-1989 has been the most diversified to date: eleven foot races, eight family cycling tours, twelve large-scale popular events and 39 folk festivals. More than 425,000 participants and spectators were affected in all regions throughout the Province. An information and awareness tour, in eighteen shopping centres throughout Québec, permitted a much closer contact with the clientèle. Through its financial assistance and provision of pertinent services, the Société's sponsorship program forms part of a policy of positive involvement in the cultural and family activities of Québec.

LOTO-QUÉBEC ART COLLECTIONS

The Société conducts two parallel programs for social involvement in the artistic life of Québec. The Collection of original engravings, inaugurated in 1978, has become the uncontested beacon for the promotion of this art, not only in Québec but also abroad. First instituted as an annual competition, this Collection is now the object of exhibitions in various regional Museums and Cultural Centres. Seven exhibitions of this Collection have been held in as many cities throughout Québec.

Since 1985, the Société also maintains a program for the acquisition of québécois works of art. This year again, more than $100,000.00 have been committed to this endeavour. These works of art, whose total value is now estimated at $475,000.00, also serve to enhance the working surroundings for our personnel. Moreover, they are graciously placed at the disposal of Museums and Cultural Centres in order to promote the blossoming of québécois art.

DIRECTORS' REPORT

The Board of Directors is responsible for the consolidated financial statements to the Shareholder. The responsibility for preparing them is delegated to General Management, while the Auditing Committee sees to revisions.

Management maintains a system of internal controls in order to present reliable financial statements. The Internal Auditing Service constantly oversees the smooth functioning of the system.

The consolidated financial statements are prepared according to generally accepted accounting principles which, in certain cases, call for judgments on the part of Management. By law, the Auditor General of Québec is appointed as the auditor of the books and accounts of the Société.

The Auditing Committee and the Auditor General meet with Management to discuss questions pertaining to auditing and to consolidated financial statements. The President Director-General is ex-officio member of the Auditing Committee. The other members are not connected with the Société, except as administrators.

Upon recommendation of the Auditing Committee, the Board of Directors has approved the consolidated financial statements of the Société for the fiscal year ended at March 31, 1989.

David Clark
Socrates Goulakos

AUDITOR'S REPORT

I have examined the consolidated balance sheet of Loto-Québec as at March 31, 1989, the consolidated statement of earnings, the consolidated statement of retained earnings and the consolidated statement of changes in liquidities for the year ended at that date. My examination was carried out according to generally accepted accounting standards and, accordingly, included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of Loto-Québec as at March 31, 1989, the results of its operations and the changes in its financial position for the year ended at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhéal Chatelain, F.C.A.
Auditor General of Québec
Québec, May 19, 1989

CONSOLIDATED BALANCE SHEET

As at March 31, 1989

ASSETS (in thousands of dollars)	1989	1988
CURRENT		
Cash	910	712
Term deposits	57,617	-
Receivables (Note 6)	14,823	21,328
Prepaid expenses	9,198	8,982
	82,548	31,022
FIXED ASSETS (Note 7)	44,936	37,762
	127,484	68,784

LIABILITIES (in thousands of dollars)	1989	1988
SHORT TERM		
Bank loan	-	3,446
Prizes payable	5,669	7,310
Dividend to be paid	40,500	-
Accounts payable and accrued liabilities (Note 8)	16,480	18,865
Unclaimed prizes (Note 9)	2,090	2,342
Deferred Income - Lottery tickets	22,842	24,837
	87,581	56,800
LIABILITIES RESULTING FROM CAPITAL LEASES (Note 10)	36	788
	87,617	57,588
SHAREHOLDER'S EQUITY		
Capital shares authorized, issued and paid: 1,700 shares with a par value of $100.00 each	170	170
Retained earnings	39,697	11,026
	39,867	11,196
	127,484	68,784

CONTINGENCIES (Note 11)

On behalf of the Board of Directors
David Clark
Socrates Goulakos

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31, 1989

(in thousands of dollars)	1989	1988
Balance at beginning of year	11,026	20,976
Net income	428,671	380,050
Dividend	(400,000)	(390,000)
Balance at end of year	39,697	11,026

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended March 31, 1989

(in thousands of dollars)	1989	1988
SALES - Lottery tickets	1,158,170	1,036,491
COST OF SALES		
Prizes paid	542,695	477,784
Discounts to retailers	60,214	54,777
Printing of tickets	21,749	21,338
	624,658	553,899
GROSS INCOME	533,512	482,592
OPERATING EXPENSES		
Advertising and communications	22,228	19,826
Distribution and sales	20,463	16,807
Data processing	27,461	22,754
Administration	18,274	16,508
Research and development	1,880	1,589
Depreciation of fixed assets	7,372	9,919
Interest - net (Note 3)	(4,137)	(2,382)
	93,541	85,021
INCOME BEFORE THE FOLLOWING ITEMS	439,971	397,571
Payments to the Government of Canada further to its withdrawal from the conduct of lotteries (Note 4)	10,889	17,069
Special commissions to non-profit organizations (Note 5)	411	452
	11,300	17,521
NET INCOME	428,671	380,050

CONSOLIDATED STATEMENT OF CHANGES IN LIQUIDITIES

For the year ended March 31, 1989

(in thousands of dollars)	1989	1988
OPERATING ACTIVITIES		
Net income	**428,671**	380,050
Item not affecting liquidities		
Depreciation of fixed assets	**7,372**	9,919
Liquidities from operations	**436,043**	389,969
Changes in non-liquid assets and liabilities related to operations	**16**	(52,059)
Liquidities provided by operating activities	**436,059**	337,910
FINANCING ACTIVITIES		
Dividend	**(359,500)**	(390,000)
Return arising from capital leases	**(752)**	(926)
Liquidities used for financing activities	**(360,252)**	(390,926)
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	**(14,767)**	(3,322)
Proceeds from disposal of equipment under capital leases	**221**	93
Liquidities used for investment activities	**(14,546)**	(3,229)
INCREASE (DECREASE) OF LIQUIDITIES	**61,261**	(56,245)
BALANCE AT BEGINNING OF YEAR	**(2,734)**	53,511
BALANCE (SHORTAGE OF LIQUIDITIES) AT END OF YEAR	**58,527**	(2,734)

Loto-Québec's liquidities include cash and term deposits less the bank loan.

ACCOMPANYING NOTES

March 31, 1989

1. **STATUTES AND FUNCTIONS** La Société des loteries et courses du Québec, also designated as Loto-Québec, is a provincial crown corporation all of whose shares are held by the Government of Québec. According to its enabling Act (L.R.Q., c S-13.1), its function is to conduct and manage lottery systems and, if so authorized by the government, to hold races and promote the breeding of race horses in the Province of Québec. In addition, and in return for financial or other considerations, the Société may offer consultation and implementation services in the areas of its competence.

2. **SUMMARY OF MAIN ACCOUNTING POLICIES** The consolidated financial statements of Loto-Québec have been prepared by management in accordance with generally accepted accounting principles, with the reasonable limits of their relative importance and within the framework of the following accounting principles.

CONSOLIDATION The consolidated financial statements group the accounts of Loto-Québec with those of Lotim Inc., a wholly-owned subsidiary, as at December 31, 1988. The balance of inter-company transactions from January 1 to March 31 of each year is entered in the consolidated balance sheet under Receivables or Accounts payable, as the case may be.

FIXED ASSETS Fixed assets are presented at their original cost and, except for works of art, are depreciated according to their estimated useful life, using the following straight-line method rates:

Building	2 %
Office Furniture	10 %
Equipment	33 1/3 % and 20 %
Improvements to rental holdings	20% and 10%
Rolling stock	30 %

CAPITAL LEASES The assets and liabilities accruing from capital leases are entered at the current value of payments to be made and are treated as an asset acquisition and loan. These assets are depreciated according to the same method utilized for other fixed assets. The rents payable under lease-operation contracts are carried under consolidated earnings.

INCOME Gross income from the sale of lottery tickets is recorded as of the date of the draw, with the exception of income originating from instant lotteries which is entered at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, except for instant lotteries, are treated as deferred income; discounts to retailers on these sales are carried as prepaid expenses.

PRIZES PAID In addition to cash prizes, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the price of sale and is entered under Sales as Income and under Prizes paid as Expenses.

3. **INTEREST INCOME - NET**

(in thousands of dollars)	1989	1988
Income from interest on current deposits	4,269	2,767
Less: Interest resulting from capital leases	132	385
	4,137	2,382

4. PAYMENTS TO THE GOUVERNMENT OF CANADA FURTHER TO ITS WITHDRAWAL FROM THE CONDUCT OF LOTTERIES

Under an agreement between the Provincial Governments and the Federal Government concerning the latter's withdrawal from the conduct of lotteries, the Provinces annually remit to the Federal Government the sum of 24 million dollars, in 1979 dollars.

The Québec Government's share is payable by Loto-Québec according to an agreement concluded between the Provinces and the regional lottery corporations. Loto-Québec will turn over approximately 11 million dollars as its contribution for fiscal 1989-1990.

5. SPECIAL COMMISSIONS TO NON-PROFIT ORGANIZATIONS

Further to a decision by the Société's sole Shareholder, a commission equal to the discount allotted to retailers is awarded to non-profit organizations engaged in the selling of lottery tickets through the LOTOMATIQUE subscription system.

6. RECEIVABLES

(in thousands of dollars)	1989	1988
Retailers	2,124	3,639
Wholesalers	5,724	12,094
Interprovincial Lottery Corporation Inc.	6,414	4,312
Advance to subsidiary - Lotim Inc.	-	700
Miscellaneous	561	583
	14,823	21,328

7. FIXED ASSETS

(in thousands of dollars)	1989			1988
	Cost	Accumulated Depreciation	Net	Net
Land	3,103	-	3,103	3,103
Building	22,571	1,793	20,778	16,847
Leasehold improvements	11,981	5,887	6,094	7,365
Equipment	60,731	48,851	11,880	6,301
Office furniture and rolling stock	4,830	2,742	2,088	2,467
Works of art	464	-	464	336
	103,680	59,273	44,407	36,419
Data processing equipment held under capital leases	3,280	2,751	529	1,343
	106,960	62,024	44,936	37,762

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars)	1989	1988
Suppliers and accrued liabilities	15,669	18,865
Amount owed to Subsidiary - Lotim Inc.	811	-
	16,480	18,865

9. UNCLAIMED PRIZES Unclaimed prizes from the Mini-Loto, Inter-Plus and Sélect 42 are entered under a provision for their subsequent distribution as bonus prizes.

10. LIABILITIES RESULTING FROM CAPITAL LEASES

(in thousands of dollars)	1989	1988
Liabilities resulting from capital leases, with rates varying from 13.5% to 19.4%, maturing until 1991	695	1,638
Payments maturing within one year (included under accounts payable and accrued liabilities)	659	850
	36	788

The following table specifies the minimum payments to be made in pursuance of liabilities resulting from capital leases:

(in thousands of dollars)	
1990	718
1991	37
Total minimum payments	755
Amount of interest included in the minimum payments	60
	695

11. CONTINGENCIES LEASE Under a lease agreement expiring in 2003, the Société is commited to paying a minimum of $55,219,430.00 for the rental of premises occupied by its Head Office in a building held in joint tenancy with Immeubles Cadimont Inc.
Rental expenditures for the year ended March 31, 1989 are $3,857,362.00 (in 1988: $3,637,378.00). The consolidated rental expenditures are $1,928,681.00.
The minimum annual rental payment for each of the next five fiscal years is fixed at $3,944,245.00.
ON-LINE LOTTERY NETWORK The government has authoriseed Loto-Québec to upgrade its computerized games hardware and to equip itself with an alternate processing facility in the amount of $50,600,000.00. As at March 31, 1989, the Société had concluded agreements totalling $46,421,000.00 for these projects, of which $18,627,608.00 have to date been entered on the books.

12. COMPARATIVE RESULTS Certain results for 1988 have been reclassified so as to bring them into line with the presentation adopted for 1989.

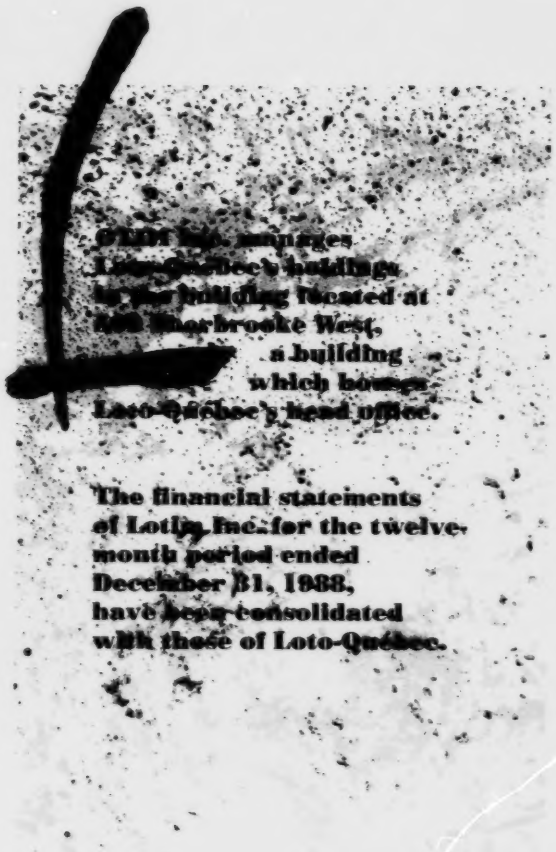
COMPARATIVES SUMMARY OF EARNINGS

The comparative statements of earnings for the past six years attest not only to the continuing growth of the Société but also to the considerable sums it has turned over to the Government and, through its various Departments, to the population of Québec.

CONSOLIDATED EARNINGS

(in thousands of dollars)	1989	1988	1987	1986	1985	1984
Sales - Lottery Tickets	1,158,170	1,036,491	998,040	883,121	741,102	662,177
COST OF SALES						
Prizes paid	542,695	477,784	460,311	409,753	342,086	304,682
Discounts to retailers	60,214	54,777	53,047	48,049	40,973	37,518
Printing of tickets	21,749	21,338	19,423	18,757	17,454	17,306
	624,658	553,899	532,781	476,559	400,513	359,506
GROSS INCOME	533,512	482,592	465,259	406,562	340,589	302,671
OPERATING COSTS						
Advertising and communication	22,228	19,826	17,650	17,630	16,079	15,020
Distribution and sales	20,463	16,807	16,649	16,025	16,759	16,867
Data processing	27,461	22,754	23,646	23,102	20,216	16,635
Administration	18,274	16,508	17,475	17,802	18,014	14,327
Research and development	1,880	1,589	1,209	947	608	-
Depreciation of fixed assets	7,372	9,919	10,564	10,119	8,256	8,318
	97,678	87,403	87,193	85,625	79,932	71,167
Interest revenues - net	4,137	2,382	2,831	3,305	2 ,131	1,276
INCOME BEFORE THE FOLLOWING ITEMS	439,971	397,571	380,897	323,972	262,788	232,780
Payment to the Government of Canada further to its withdrawal from the conduct of lotteries	10,889	17,069	19,030	20,797	9,468	9,217
Special contribution to Event: Rendez-Vous 87			1,000			
Special commissions to non-profit organizations	411	452	492	504	401	443
	11,300	17,521	20,522	21,301	9,869	9,660
NET INCOME	428,671	380,050	360,375	302,671	252,919	223,120

SUBSIDIARY



LOTIM INC.

A WHOLLY-OWNED SUBSIDIARY OF LOTO-QUÉBEC. The tightening of the office-space market in the Montréal downtown core has enabled the Société to practice an advantageous rental policy. This situation should continue until 1991. As at March 31, 1989, the office occupancy rate for the building was at 97%. Prospective leases, to be signed at the beginning of the next fiscal period, will bring this rate up to 99.5%. A study presently under way, could facilitate, in the short term, the complete rental of commercial floors.

Thanks to this optimum occupancy rate, as well as the elimination of rental inducements and a revised tariff structure for commercial space rentals, the operational profit for the year under review rose to $4,508,604.00 as compared with $3,491,606.00 (amended) for the preceding fiscal period. LOTIM Inc.'s share rose from $1,745,803.00 (amended) to $2,254,302.00, before financing and depreciation.

The completion of major renovations enabled the stabilization of the budget for fixed assets and the orientation of management strategy towards the medium and long runs. The financial results and the rates of occupancy have permitted a considerable appreciation in the value of the assets.

LOTO-QUÉBEC

For the Fiscal Year April 1, 1988 to March 31, 1989.

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BOARD OF DIRECTORS

* David Clark
President and Director-General

Benoit G. Côté
* Francine Harel Giasson, Ph.D.
* Socrates Goulakos, c.a.
Bernard Grégoire Jr.
Marcel Jobin
Donald W. McNaughton

Marguerite Bourgeois, B.C.L.
Secretary

* Members of the Audit Committee

MANAGEMENT COMMITTEE

This Committee consists of the President, the Vice-Presidents, and the Directors of the President's Office and New Markets.

GENERAL MANAGEMENT

MANAGER OF THE PRESIDENT'S OFFICE
Pierre l'Archevêque
Assistant to the President

Department of Organizational Development

MANAGER OF INTERNAL AUDITING
Jacques Dubois

Department of Data Auditing
Department of Operational Auditing

MANAGER OF NEW MARKETS
Vincent Trudel

Research Department
Department for New Methods of Distribution
New games Department

VICE-PRESIDENT, GENERAL MANAGEMENT
Denis Vandry

VICE-PRESIDENT, HUMAN RESOURCES
Joanne Drapeau

Labour Relations Department
Personnel Department
Professional Development Department
Physical Security, Health and Safety Department

VICE-PRESIDENT, LOTTERIES
Claude Trudel

MANAGER, MARKETING
Robert Ayotte

Department of Product Management and Publicity
Department of Product Development & Market Research
Communications
Sponsorships
Draws

MANAGER, FINANCES
Gilles Dubé

Controllor's Office
Treasury
Supply Services

MANAGER, GAMES-NETWORK
Rosaire Bachand

Control Centre for Network Systems
Telecommunications

MANAGER, SALES & DISTRIBUTION
Simon Brodeur

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GRAPHIC DESIGN
Gauthier Designers Inc.

PAPERS
S.D. Warren
Domtar Inc.

COLOUR SEPARATION
Repro 2000

PRINTING AND BINDING
Imprimerie L'Éclaireur Inc.

PRINTED:
June 1989
Legal Deposit
Bibliothèque Nationale du Québec

On peut se procurer la version francaise de ce rapport annuel en s'adressant au:

Directorat des affaires publiques
Loto-Québec
500, rue Sherbrooke ouest
Bureau 2000
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THE TWO TUNIT WHO CHOSE TRIAL BY BOWS

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ᐃᓄᐃᑦ ᐅᓂᒃᑲᓐᓇᖅᑐᑦ ᓴᐃᖅᓂᒋᔭᖅ

ᑐᓂᓯ ᐱᑎᖏᑦᑕᐅᓕᐅᖏᑐᐃᓴᓂᓯ ᑕᐃᒪᑦᓂᒪᓂᓯ ᐅᓂᒃᑲᓐᓇᖅᑐᑦ ᑐᓂᐅᔾᔨᑎᑦ ᐅᒥᑎᐅᑎᔭᓗᑎᑦ ᐅᑦᑐᓐᑎᑐᐃᓐᓇᖅᑑᑎᑦ ᖃᓄᐅᑦᑕᐅᓂᒃ ᐃᓄᓕᒥᑕᐅᑦᒍᑦᑐᓂᒃᓴᑦ. ᑖᓐᓇᒥᒃᓯᒪᓂᖅ ᐱᓇᓱᑎᓂᒪᓂᓯ ᐅᒥᑎᐅᑎᔭᓗᑎᑦ ᓇᑦᓂᕐᓂᓯ ᐃᓄᓕᓴᓂᓂᑦᒍᑦᑐᓂᒃᓴᑦᓱᒃᑲᑦ ᐱᑎᕐᑕᐅᓂᒃᓴᓕ ᑐᓂᐅᒪᒥ ᐅᑦᓂᑕᒪᑦ ᐅᓂᒃᑲᓐᓇᖅᑐᑦ ᑕᐃᒪᓐᓇᖅᑐᑦ ᐃᓕᓴᕐᓂᖅᑐᑦ ᐃᓄᐃᑦᑕᐃᓐᓇᖅᓱᒃᑲᑦ ᐊᑎᕐᓂᖅᑐᑦ ᐃᓄᐃᑦᑕᐃᓐᓇᖅᓱᒃᑲᑦ ᓄᓇᕗᑦ ᐊᑦᓂᓕᕆᓂᖅᑐᑦ ᑕᒪᑕᒃ ᓱᓂ ᓂᑦᑕᕐᒪᓐᓇᖅᑐᑦ ᐱᓇᓱᐃᐃᓂᓂᒃᑐᑦ ᐃᓄᓐᐃᐃᓂᓂᒃᑐᑦ ᐃᓄᓐᐃᐃᓂᒃᓴᒃᑐᑦ ᓄᓇᕗᑦ ᖃᓄᐅᑎᓂᒃ ᐃᓂᓗᒃᓴᓂᕐᑐᑦ ᑖᓐᓇᒥᒃᓯᒪᓂᖅ ᑕᐃᒪᓐᓇᖅᑐᑦ ᐅᑭᐅᖅᑕᕐᓂᖅ ᐱᑎᖏᑦᑕᐅᓂᒃᓴᓕ ᐱᑎᖏᑦᑕᐅᓂᒃᓴᓕ ᐅᑭᐅᖅᑕᕐᓂᖅᑐᑦ ᐃᓄᐃᑦᑕᐃᓐᓇᖅᓱᒃᑲᑦ ᐃᓄᐃᑦᑕᐃᓐᓇᖅᓱᒃᑲᑦ ᐃᓕᓴᕐᓂᖅᑐ